

Message Text

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SUBJECT: US BANKS IN JAPAN

REFS: (A) TOKYO 9124; (B) TOKYO 7373; (C) STATE 60347;
(D) TOKYO 9040

1. UNDER ACTIVE CONSIDERATION IS A FORMAL APPROACH TO THE
JAPANESE GOVERNMENT TO DISCUSS PRESENT DIFFICULTIES AND
FUTURE ROLE OF US BANK OPERATIONS IN JAPAN. SUCH DISCUS-
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SIONS APPEAR APPROPRIATE AT THIS TIME FOR THE FOLLOWING
REASONS:

A. THE INCREASING DIFFICULTIES EXPERIENCED BY US AND OTHER
FOREIGN BANKS IN JAPAN AS EVIDENCED IN RECENT DISCUSSIONS
IN JAPAN BY BOTH SAN FRANCISCO FEDERAL RESERVE BANK PRESI-
DENT BALLE AND EC COMMISSIONER TUGENDHAT;

B. THE CHANGE IN JAPAN'S STATUS FROM A NET CAPITAL IMPORTER TO A NET CAPITAL EXPORTER AND THE CONCOMITANT CHANGES IMPOSED ON JAPAN'S FINANCIAL STRUCTURE; AND

C. THE INTERNATIONAL BANKING ACT OF 1978, AS PASSED BY THE HOUSE AND SENATE, REQUIRES THE TREASURY TO STUDY AND REPORT TO THE CONGRESS ON THE TREATMENT ACCORDED US BANKS

BY FOREIGN GOVERNMENTS. IN THE SENATE BANKING COMMITTEE'S DISCUSSION OF THIS PROVISION THE TREATMENT OF US BANKS OPERATING IN JAPAN WAS CITED AS AN IMPORTANT EXAMPLE OF THE NEED FOR SUCH A STUDY.

2. THE PURPOSE OF THIS CABLE IS TO CONVEY CURRENT INTER-AGENCY THINKING ON THIS SUBJECT AND TO PRESENT A LIST OF WHAT ARE PERCEIVED AS THE MOST IMPORTANT POLICIES TO BE DISCUSSED WITH THE BOJ/MOF. INTERAGENCY VIEWS HAVE DRAWN ON BALLE'S REPORT AND EMBASSY'S THOUGHTFUL TELEGRAM ON THE SUBJECT (TOKYO 09124). IN ADDITION, EMBASSY ASSISTANCE IN OBTAINING ADDITIONAL INFORMATION AND EMBASSY'S VIEWS ON THE CONTENT AND TIMELINESS OF THE SUGGESTED APPROACH ARE REQUESTED BEFORE WE OPEN DISCUSSIONS WITH BOJ/MOF.

3. THE POLICIES THAT COULD MOST BENEFICIALLY BE MODIFIED IN THE NEAR FUTURE RELATE TO FOREIGN BANKS' ACCESS TO YEN LIMITED OFFICIAL USE

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FUNDING. JAPANESE AUTHORITIES WOULD BE ASKED TO TAKE MEASURES PROVIDING FOR:

A. IMPROVED ACCESS TO THE BILL DISCOUNT, CALL MONEY AND GENSACKI MARKETS. SUCH MEASURES COULD INCLUDE BETTER DEFINITIONS AND MORE CERTAINTY REGARDING THE ELIGIBILITY OF BILLS WHICH THE BOJ WILL DISCOUNT, MODIFICATION OF THE GUIDELINES IMPOSING RATIOS BETWEEN FUNDS RAISED IN THE BILL DISCOUNT AND CALL MONEY MARKET, AND MODIFYING THE POLICY COMPELLING FOREIGN BANKS TO CHOOSE BETWEEN OPERATING EXCLUSIVELY IN EITHER THE BILL DISCOUNT OR GENSACKI MARKET.

B. RELAXED REGULATIONS ON SOLICITATIONS OF YEN DEPOSITS.

C. IMPROVED CONTINUITY OF ACCESS TO THE INTERBANK MARKET FOR BOTH LONG- AND SHORT-TERM FUNDS. PRESENT POLICIES AND PRACTICES IN THESE AREAS EFFECTIVELY IMPEDE FOREIGN BANKS' ACCESS TO YEN FUNDS TO A MUCH GREATER EXTENT THAN IS TRUE FOR DOMESTIC BANKS. MEASURES TAKEN TO PROVIDE EQUAL ACCESS FOR FOREIGN AND DOMESTIC BANKS TO DEPOSIT, INTERBANK AND CALL MONEY SOURCES OF FUNDS WOULD BE CONSISTENT WITH THE TREATMENT OF JAPANESE BANKS IN THE UNITED STATES.

IT WOULD ALSO BE CONSISTENT WITH JAPAN'S CHANGED FINANCIAL SITUATION AND JAPAN'S LONG-TERM INTEREST IN MAINTAINING A HEALTHY AND COMPETITIVE FOREIGN BANKING SECTOR.

D. AUTHORITY TO ISSUE CD'S FOR DEBENTURES.

CURRENT JAPANESE POLICIES IN THIS AREA DO NOT ALLOW THE ISSUANCE OF CD'S EITHER BY JAPANESE OR FOREIGN BANKS AND ISSUANCE OF LONGER-TERM DEBENTURES IS ALLOWED ONLY TO

SPECIALIZED INSTITUTIONS. WIDER AUTHORITY HERE WOULD ALSO CONTRIBUTE TO THE DEVELOPMENT OF JAPANESE MONEY MARKETS. IN THE UNITED STATES, JAPANESE BANKS HAVE BEEN CONVERTING THEIR AGENCIES TO BRANCHES PARTLY IN ORDER TO BE LIMITED OFFICIAL USE

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ABLE TO ISSUE CD'S. JAPANESE BANKS HAVE REPORTEDLY BEEN PRESSING BOJ FOR PERMISSION TO ISSUE CD'S DOMESTICALLY. WE UNDERSTAND THAT GOJ IS CONSIDERING PERMITTING ISSUANCE OF CD'S IN THE LOCAL MARKET. IF TRUE, IS THIS LIKELY TO MAKE GOJ MORE RECEPTIVE TO USG APPROACH ON SUBJECT? ANOTHER QUESTION IS WHETHER AUTHORITY TO ISSUE CD'S IS OF INTEREST TO MAJORITY OF US BANKS IN JAPAN OR TO JUST ONE OR TWO.

4. A POINT TO BE RAISED SEPARATELY WOULD BE THE STANDARDS ON AUTHORIZATIONS OF ADDITIONAL BRANCHES FOR FOREIGN BANKS. THE ABILITY TO OPEN ADDITIONAL BRANCHES WILL BE OF LIMITED BENEFIT TO US BANKS UNLESS OTHER POLICIES PROVIDING ACCESS TO YEN FUNDS ARE ALSO LIBERALIZED. NEVERTHELESS, IT WOULD BE A USEFUL STEP AS A BONA FIDE INDICATOR OF THE INTENTION OF JAPANESE AUTHORITIES VIS-A-VIS FOREIGN BANKS. IT ALSO COULD BE EASILY ACCOMPLISHED WITHOUT SIGNIFICANTLY AFFECTING THE DOMESTIC BANKING STRUCTURE.

5. EMBASSY IS REQUESTED TO PROVIDE FURTHER INFORMATION ON POLICIES AFFECTING ACQUISITION OF JAPANESE BANKS BY FOREIGN BANKS. THE EARLIER EMBASSY CABLE (REFTEL TOKYO 09124) STATED THAT JAPANESE LAW RESTRICTED FOREIGN OWNERSHIP TO NO MORE THAN FIVE PER CENT OF THE EQUITY OWNERSHIP OF A JAPANESE BANK. DOES THIS RESTRICTION APPLY ONLY TO FOREIGNERS OR IS IT GENERALLY APPLICABLE TO THE OWNERSHIP BY ANY SINGLE PARTY, DOMESTIC OR FOREIGN, OF MORE THAN FIVE PER CENT OF THE EQUITY OF A BANK? IF EACH OF A NUMBER OF FOREIGNERS OWNED FIVE PER CENT OR LESS OF AN INDIVIDUAL BANK, WOULD A CEILING APPLY TO THE TOTAL FOREIGN OWNERSHIP OF THE BANK? IS THE LAW APPLICABLE ONLY TO FOREIGN OWNERSHIP OF BANKS, OR DOES IT COVER FOREIGN OWNERSHIP OF OTHER FINANCIAL INSTITUTIONS, OR OTHER SECTORS OF JAPANESE LIMITED OFFICIAL USE

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INDUSTRY? WHAT WOULD BE THE LEGAL OR REGULATORY STATUS OF A FOREIGN BANK'S BID TO PURCHASE EXISTING BRANCHES OF A JAPANESE BANK? APPARENTLY, MERGERS BETWEEN JAPANESE BANKS AND BETWEEN BANKS AND OTHER CLOSELY RELATED FINANCIAL INSTITUTIONS HAVE RECEIVED APPROVAL OF GOJ IN THE PAST. ARE THERE ANY OPPORTUNITIES FOR FOREIGN BANKS VIA THIS MERGER ROUTE? EMBASSY'S EFFORTS TO SECURE INFORMATION AND INCREASE OUR KNOWLEDGE OF THE IMPEDIMENTS TO FOREIGN BANKS ACQUIRING JAPANESE BANKS OR CLOSELY RELATED FINANCIAL INSTITUTIONS WOULD BE GREATLY APPRECIATED.

6. NO REFERENCE HAS BEEN MADE HERE TO SWAP LIMITATIONS AND ACCESS TO THE SPECIAL IMPORT FINANCING FACILITIES PROVIDED BY BOJ/MOF. THE SWAP LIMITATIONS WERE OMITTED BECAUSE THEY HAVE RECENTLY BEEN RAISED. IT IS UNDERSTOOD THAT FOREIGN BANKS HAVE ALSO RECENTLY BEEN GRANTED ACCESS TO THE SPECIAL IMPORT FINANCING FACILITIES OF THE MOF/BOJ. HOWEVER, IT IS NOT CLEAR WHETHER THIS CHANGE PROVIDES ACCESS TO DOLLAR AND/OR YEN FUNDS AND THE EXTENT TO WHICH FOREIGN BANKS NOW ACTUALLY HAVE A COMPETITIVE POSITION WITH REGARD TO FINANCING JAPANESE IMPORTS. CLARIFICATION OF THIS POINT WOULD BE APPRECIATED.

7. IN PREPARING REPLY, EMBASSY MAY WANT TO CONSULT WITH REPRESENTATIVES OF US BANKS TO DETERMINE WHICH ISSUES ARE MOST IMPORTANT TO THE BANKS THEMSELVES AND WHERE THE US BANKS BELIEVE A USG APPROACH MIGHT YIELD USEFUL RESULTS. IN ADDITION TO EMBASSY'S COMMENTS ON THE SUBSTANCE OF THIS CABLE, EMBASSY'S SUGGESTIONS ON THE BEST WAY TO APPROACH THE JAPANESE AUTHORITIES WOULD ALSO BE APPRECIATED. CHRISTOPHER

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